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Internal oversight activities

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Report by the Director of the Office of Evaluation and Internal Oversight

The present document provides information on the activities of the internal oversight function in accordance with decision IDB.44/Dec.3.

I. Overview

1. Through the Director General's Bulletin DGB/2018/02 of 25 January 2018, the Office of Evaluation and Internal Oversight (ODG/EIO) was created by merging the Independent Evaluation Division (ODG/EVQ/IEV) with the Office of Internal Oversight and Ethics (ODG/IOE). In the same Bulletin, the ethics-related function was moved to the Office of the Managing Director, Directorate of Corporate Management. The Director of ODG/EIO oversees the work of two collocated divisions: the Independent Evaluation Division (ODG/EIO/IED) and the Internal Oversight Division (ODG/EIO/IOD; short: IOD), which by virtue of their responsibilities shall remain independent of each other. Through improved coordination and communication between the two divisions, inter alia on their workplans, synergies will be created and the independence of the assurance function be strengthened.

2. IOD is established in accordance with Financial Regulation 9.1 and Financial Rule 109.1.15 and is governed by the Internal Oversight Charter, Investigations Guidelines and the Code of Ethical Conduct. The mandate of the internal oversight function covers all systems, processes, operations, functions, and activities of UNIDO. In addition to its primary functions of internal audit and investigation, IOD is also the focal point for coordination on activities of the Joint Inspection Unit, and serves as the Secretariat to the Audit Advisory Committee (AAC).

3. In performing its functions, IOD follows the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA) for internal audit, and the Uniform Principles and Guidelines for Investigations.

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4. IOD's budgeted posts currently comprise four Professional and two General Service staff, with one Director post, supervising two divisions (as mentioned above), and one P-2 auditor to be recruited. In 2017, internal oversight began with four staff: a Director, an Investigator and two support staff (a Senior Oversight Assistant and an Oversight Assistant). Professional posts, namely the two auditor posts, were vacant during the first half of 2017, resulting in capacity limitations for internal audit.

Table 1
Overview of staffing

	2015	*2016*	*2017*	*2018*
	Number of posts	*Number of posts*	*Number of posts*	*Number of posts*
Director – D-1	1 (IOE)	1 (IOE)	1(IOE)	1 (EIO)[a]
Chief – P-5[b]				1
Auditor – P-4	1	1	1 - vacant[c]	(post currently filled at P-3 level)
Auditor – P-3	1 - vacant	1 - vacant	2[d]	2[d]
Auditor – P-2				vacant[e]
Investigator – P-3	1	1 - vacant	1	1
Support staff – GS	2	2	2	2
Total number of posts budgeted	6	6	7	8
Total number of posts occupied	5	4	6	7

[a] As of 1 February, the Director position covers not only one division, but two: the Independent Evaluation Division (ODG/EIO/EID) and the Internal Oversight Division (ODG/EIO/IOD).
[b] New position from February 2018, created with the new structure.
[c] Vacant from 31 January 2017.
[d] One post was filled on 27 June and the other on 1 August 2017.
[e] P-2 auditor to be recruited.

5. IOD's annual workplan is developed based on a continuous risk assessment of UNIDO's operations. IOD forms its view on the Organization's risks using both top-down and bottom-up approaches. The top-down approach includes observations from the sessions of the policymaking organs and the review of their key decisions, as well as from meetings of senior management, to understand the Organization's priorities and its view on risks. The bottom-up approach includes IOD's ongoing discussions with the heads of key business units, and in future, the Chair of the Risk Management Committee (RMC). IOD also takes into account views on institutional opportunities and risks of other assurance providers including the External Auditor and the Independent Evaluation Division.

6. The latest risk assessment was undertaken in 2017 to develop the workplan for the biennium 2018–2019. The risk assessments are updated annually.

7. During 2017, IOD issued five audit reports: two financial statement audits, two country office audits, and one Headquarters audit. In addition, five investigation reports were issued.

8. Table 2 below shows an overview of reports issued in the last five years.

Table 2
Overview of reports by year of issue

	2013	2014	2015	2016	2017
	Total reports issued				
Internal Audit	5	5	5	4	5
Investigative (incl. systemic issues)	1	8	5	3	5
Other (e.g. JIU, IOD)	1	1	1	1	2
Total	7	14	11	8	12

9. IOD continued to advise and support management on requests received on a wide range of issues. These include, inter alia, policy development, donor agreements, single audit principle, enterprise risk management (ERM), implementing partners, and European Commission verifications.

10. IOD confirms that during 2017, in performing its internal audit and investigation activities, it functioned independently and objectively without any interference and/or influence from any internal or external parties.

II. Overview of internal audit work in 2017[1]

11. The audit of the **Egypt Regional Office** was completed and the report issued to management on 27 January 2017. This was the first audit of the regional office since the new field policy action plan presented to the Programme and Budget Committee in June 2016, where the office was designated as a regional hub. Some significant findings included: the establishment of regular communication channels with the field for a more effective Headquarters/field relationship; the improvement of relationship management between the field and the regional programmes; and a better coordination and reporting of UNIDO activities to the United Nations Development Group Arab Region.

12. The audit report on the **Regional Division Africa** was issued to management on 28 July 2017. It covers 45 sub-Saharan countries, plus South Sudan, with ambitious mandates for the industrialization of Africa. Implementation of these mandates with diminishing financial resources is a major challenge. Some very important recommendations included: the establishment of a funding strategy for the Third Industrial Development Decade of Africa (IDDA III) and an appropriate funding mechanism to mobilize and receive voluntary contributions; annual reporting comparing achievements against the annual workplan, as well as summary reports to the Director General; assigning responsibilities relating to IDDA III to the UNIDO Representatives/Country Representatives; the establishment of procedures to strengthen internal communication and coordination on technical cooperation programmes being implemented in the region; and the development of an internal mechanism to manage requests/demands from countries and to service these requests effectively and in a coordinated manner.

13. Two financial audits on the 2016 financial statements of the Catering Services and on the Major Replacement and Repair Fund were completed and reports issued in June and August 2017 respectively.

14. The audit of the **Ethiopia Regional Office and Partnerships** was completed and the report issued to management on 22 December 2017.[2] Critical findings included: an ERM policy to be fully and effectively implemented and, as regards procurement, access levels granted to staff to be in line with responsibilities.

[1] Internal audit work in 2018 will be covered in the report to the forty-seventh session of the Board.
[2] Available on Permanent Missions' Extranet.

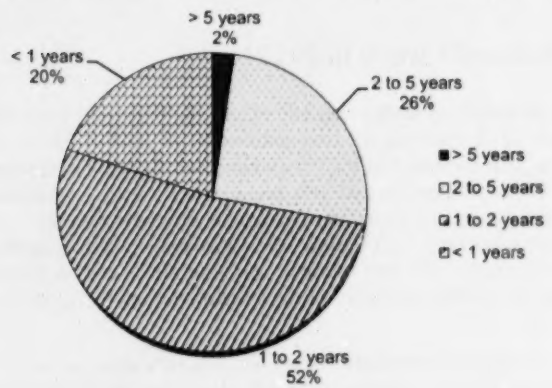
15. The fieldwork of the **China Regional Office** audit was completed and the draft report issued to auditees in December 2017. After consolidating the comments from the auditees, the final report was issued in March 2018.[3] Critical findings concerned the ERM process requiring significant improvements as well as the effectiveness of delegations of procurement authority managed by Headquarters.

III. Implementation status of recommendations

16. IOD reviewed the implementation of all recommendations outstanding as at 8 January 2018. As indicated in Table 2 above, 10 audit and investigative reports were issued in 2017 (excluding the JIU and IOD report to the Industrial Development Board) resulting in 57 new recommendations.

17. During 2017, 46 recommendations from previous years were closed. The cumulative implementation rate of open audit recommendations issued since 2006 was 73 per cent as at 31 December 2017 (60 per cent in 2016). Of the 168 (180 recommendations in 2016) pending implementation, 47 recommendations, or 28 per cent, belong to 2014 and before.

Ageing of pending/pending-started recommendations



IV. Cooperation with other oversight bodies

18. Consultations were continued with the External Auditor to align audit workplans and planned field visits; to expand the coverage of assurance activities in field offices; for efficient use of limited resources; and to avoid duplication of work.

19. Active participation was continued in the United Nations system's internal audit and investigative communities in support of United Nations-wide coherence and harmonization efforts.

20. Work as JIU focal point for UNIDO[4] continued.

V. Strengthening governance and operations of the internal oversight function

21. In fulfilling a long-outstanding recommendation made by the External Auditor and the JIU, the AAC was established, thereby strengthening the independence and operations of the internal oversight function, as well as compliance with international

[3] Available on Permanent Missions' Extranet.
[4] A separate report on the activities of the JIU is available as IDB.46/14.

standards and best practices. The activities of the AAC, including its collaboration with ODG/EIO and IOD, as well as the advice it provided, are covered in the AAC report to the Board (IDB.46/16). IOD also continued reporting to the Director General through quarterly summary reports.

VI. Outlook

22. IOD will continue its best efforts to fulfil its mandate and continuously improve its ability to provide internal audit, investigative and advisory services that enhance UNIDO's governance, oversight, management decision-making, and accountability. To address emerging risks during 2018, its workplan will remain flexible and adaptable to the extent possible.

23. Although IOD directs its effort on internal audit through the use of a risk-based audit planning methodology, given its resources, the office cannot fully cover all identified high-risk and critical areas. However, due to the importance of internal audit activities, IOD plans to build on past experience in conducting field office audits and improve the internal audit approach when planning for 2019 and conducting audits in 2018.

24. The Organization-wide risk assessment process is in its inception phase. IOD is in close contact with the RMC Chair and will enhance this collaboration in the next months and 2019.

25. IOD closely collaborates with the substantive programmes/departments to add value to the operations through the findings of internal audit activities. To support this approach, as of 2018, audits include agreed management action plans, instead of previous recommendations.

26. In 2018, IOD is working on a more effective and efficient follow-up scheme to outstanding recommendations, supported by the Executive Board and the AAC.

27. As part of the recommendation follow-up process, IOD reviewed all pending recommendations and identified those that need to be closed. IOD is meeting with focal points to confirm its initial assessment of these recommendations and verify any available evidence regarding the implementation of the remaining recommendations. A revised status of recommendations will be presented to the AAC in October 2018.

28. In May 2018, the AAC held discussion with IOD on ways to further strengthen collaboration with the External Auditor. It was agreed that IOD conducts an assurance mapping exercise to further improve its collaboration with all assurance provides. A preliminary draft will be shared with the AAC in October 2018.

29. IOD will continue to address allegations of wrongdoing made to the office and priority will be given to dealing with high-risk situations.

30. Budgetary and human resources for the internal oversight function continue to not be commensurate with UNIDO's varied and increased operations, as well as its geographic span, and with the expanded mandate as Secretariat to the AAC.

31. As ever, the impact of internal oversight, as an effective independent and objective function assisting the Organization in achieving its goals and objectives, depends ultimately on the continuous support received from UNIDO's senior management and its Member States.

VII. Action required of the Board

32. The Board may wish to take note of the information contained in the present document.